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their future will be in case they are combined. Such is the function of the promoter, or the entrepreneur, or the capitalist who backs the enterprise.

The wisdom, on the part of the accountant, in taking this attitude is indicated by the results of a study relating to twenty representative consolidations effected about 1925. The companies in this group after consolidation, showed an increase of net income in 1926 over 1925 of 34.17%. In 1927, as compared with 1926, these companies showed an increase in net income of

only .37 of 1%. Net working capital in 1926 was 10.6% greater than in 1925. But in 1927 it was only 3.07% greater than in 1926.

These figures, considered without relation to general business conditions and other factors which may have affected the individual companies, are not conclusive. They do, however, support the suggestion sometimes made, that the economies resulting from consolidation soon are offset by new and unforeseen expenses incident to consolidated operation.

System Work Initiated by the Cash Questionnaire

By R. A. DALRYMPLE

COST records, it has been stated, constitute a pivot on which swing the control of inventory, internal audit of payroll, and knowledge of profit or loss realized on various products handled. In fact, it is believed that the good management of an enterprise often swings on the same pivot.

The importance of cost records, therefore, needs no amplification to the accountant, but many accountants need to be more deeply interested in the matter of ways and means of cost finding. It is highly specialized work, and therein lies the opportunity for individuality and adaptability. If a client's cost work is inadequate, poorly adapted, or improperly controlled, every accountant, granting that his advice has been requested, or is desired, should be able to make concrete recommendations for improvement of the system as specifically as he would in the matter of cash accounting and control.

The accounting for costs in enough detail to permit of ready comparison with the market price of similar commodities is one of the most important features of any accounting system. The work of obtaining such data frequently is exceedingly com-

plex and at times a client will deem it impracticable to include a detail cost system as a part of his accounting organization. Notwithstanding this, an accountant may still urge the vital necessity of cost statistics and will insist that such statistics, to be fully reliable, must be an actual part of the bookkeeping procedure. When faced with the expense which such work frequently entails, clients perhaps will not be willing to admit the necessity.

In such cases the opportunity is presented to the accountant of devising controlling accounts which are susceptible to monthly reconciliation with actual conditions and thus would prevent an erratic costing of sales. In other cases, by the issuance of material in accordance with a definite production schedule, it is possible to control the cost of material and, by this control, to measure the cost of direct labor. The factory overhead frequently can be apportioned to various products by using the percentage of overhead to direct labor. In cases where the fluctuation is either so wide or irrational that the resulting costs would be distorted, a recognition of the relation of the total proposed production for the year to the total proposed annual

overhead expenditures may be used to establish a constant for this element of cost and on this constant basis an apportionment to the various lines of product can be made. If the problem is carefully studied, inexpensive methods of logical accounting can be found for the most complex factory operations.

Where multiplicity of products, operations, and locations make comparative analytical statistics a necessity that the client admits and is willing to pay for, the accountant should consider the possibility of effecting important economies by the utilization of mechanical devices.

For a number of years there has been a continual increase in the adaptation of tabulating machinery to pay-rolls and labor distribution. There are various types of installations suiting the various conditions. In general, an arrangement which will produce a finished pay-roll and permit a quick compilation of labor statistics for Federal, State, and employer's use, and which will inexpensively distribute such pay-roll over a complex system of cost and expense accounts is quite possible by tabulating machinery. Such an installation should result in a high percentage of utility of the equipment and should show marked savings over hand work.

Material consumption is also handled, in some cases, very advantageously by such equipment. In the matter of inventory control there has probably been devised nothing comparable to the tabulating equipment. The reason for this rests in the fact that the one operation of producing the first record makes available several other records with utmost accuracy assured. Thus, the units and value of inventory and production can be thoroughly defined, analyzed, and followed through to branch stocks and finally be the means of similarly analyzing the units and cost of sales—both with respect to the nature of the item and the territory of its demand.

Such records are almost ideal and are the real basis for any executive action with respect to improving the ratio of turnover and to decreasing the investment in slow-moving merchandise stocks.

Present merchandising methods tend to throw the burden of inventory investment largely on the manufacturer, since, by hand-to-mouth buying, the middlemen and retailers are reducing their investment in merchandise to a minimum. It remains a difficult problem for the manufacturer to know when he is carrying ample stocks to protect the demand and when such stocks have been cut to a dangerous extent, to know when his merchandise is well balanced or that, on the contrary, certain lines are becoming disproportioned and therefore require immediate curtailment or expansion. This kind of information must be specific, as generalized aggregates are of little assistance. With mechanical tabulations all needed definitions of merchandise stocks can be maintained, and an analysis of production, demand, and balance on hand in terms of said definitions are available with an expense that is modest when compared to the benefit derived.

Consideration of such mechanical devices is distinctly an accountant's function, inasmuch as their full utility cannot be realized without an incorporation of the tabulations in books of account. The accountant should be the architect of the completed accounting structure, should be sole arbiter with respect to the general plan, and should be competent to pass on the material presented, whether machine or hand-made. There are many devices on the market, some of which have a narrow field but in that field are supreme. Others have a much broader possible application.

All accountants should make an effort to keep up with these offerings and be able to advise wisely with respect to their in-

stallations. It is only natural that the manufacturers of such equipment will sell their product by high-pressure methods and the prospective buyer, the client, should look to the accountant for expert advice. Advice on such matters should be grounded on a real knowledge of the nature and capacity of the machine under consideration; not a repetition of representations made by competing salesmen.

Accountants should realize that the work of their profession is receiving a great impetus from these machines, inasmuch as greater range of accounting information is made available thereby and that this increase in accounting information is being obtained in such widening circles of business and industry that a greater demand for professional accounting service is a natural concomitant. Instead of standing aloof, accountants should be able to recommend wisely and be glad to urge installations that will economically afford material to round out and perfect the accounting structure they would be proud to design.

The third essential of systematic organization is a recognition of the necessity of a continuous, disinterested surveillance of the human equation. This is a vital matter, as no system can be devised that is self-operating any more than that there has yet been devised a perpetual motion machine. The human equation must be taken into consideration. In the foregoing discussion emphasis has been laid on the importance of non-overlapping functions of the office personnel, on the arrangement of accounting records whereby the completed data of one become the basis of unity for another, whereby any lack of correlation is clear and definite and constitutes a warning that should not be ignored.

It remains necessary to provide for such surveillance of the organization and its work that the enterprise will be assured of the full utilization of all safeguards pro-

vided. Without this constant, disinterested watchfulness, the best system ever devised can be made ridiculous if a scheme of collusion should spread throughout an organization. Such things can and do happen and must be taken into account.

The accountant should provide for a series of reports that are fully comprehensive and are supported by trial balances, analytical statements, and reconcilements with respect to all items of the balance sheet. It should be the responsibility of the person issuing such reports to certify as to their accuracy and also the accuracy of all of the supporting documents. This procedure rounds out the theory and plan of an internal audit.

There is a growing realization among the great industries that all accounting procedure should be controlled by one center and that wherever located all individuals charged with the responsibility of any part of the accounting should be members of a closely-knit department. The chief of this department should be an important unit in the management of the enterprise, the one source of all accounting information, and its official interpreter, and his opinion as to the application of such information to the management's plans and projects should be sought and considered. This function is just as important also to smaller concerns and a chief accountant should be worthy of and be accorded similar recognition.

If an enterprise is wisely administered, no person can find employment within its office organization before his business record has had a searching examination. This distinctly applies to the proverbial office boy who, by diligence and application, might warrant an advancement to a position of trust, but whose outside associations are such that he never should have been taken into the office. In large organizations an employment and personnel department is very useful and smaller con-

cerns should establish contacts with their personnel in a similar way. A betrayal of trust is frequently foreshadowed by associations and interests of the non-business hours. The business family cannot safely be ignorant of such matters.

In conclusion, the accountant may be requested to perfect only a minor part of an office routine and method, but his grasp of the entire situation should be such that the further need of his service can be stated succinctly and emphatically so that, instead of merely making minor alterations, he will be asked to help redesign the entire structure, in order that it may be a more efficient means of serving and expanding a successful enterprise or conserve the resources of a concern too long operating without sufficient accounting information.

Such service is to the highest degree constructive and requires a great breadth of view and a wealth of detail information, but it is the function and opportunity of an accountant.

The three essentials that should be a part of every properly organized enterprise have been described and somewhat enlarged upon, and each system engagement should be classified as needing particular thought as to one or more of these essentials: namely,

- (1) Functional assignment of duties.
- (2) Methodical arrangement of records and reports which will properly correlate such functions.
- (3) Disinterested surveillance of the human equation functioning on the system as established.

Annual Meeting

THE 1928 annual meeting of the members of the firm and managers was held Monday, Tuesday, and Wednesday, September 24, 25, and 26. While the physical setting was new and unfamiliar, on account of the changed location of the executive offices, the gathering looked not unlike the many by which it has been preceded. All of the firm members were present with the exception of Mr. Lovibond. All of the American practice offices were represented except Dallas. The death of Mr. Bland, who had planned to attend and represent Dallas, cast its shadow over the gathering, and he was missed by his many friends.

The program this year followed practically the same plan as last year. A professional conference, at which Mr. Ludlam presided, was held the first day, with a recess at noon, when a buffet luncheon was served in the library. In the evening, after several private dinner parties, the firm members and managers, with their wives and other members of their families, attended a theatrical performance.

The golf tournament, which has come to be an established part of the annual meetings, was held the next day, with Colonel Carter acting as host, at Round Hill Country Club, Greenwich, Connecticut. The day was ideal for golf. Mr. J. A. Padon repeated last year's performance by winning low gross with a card of 86 for the eighteen holes. Mr. Carr won the honors for low net with a score of 66. The consolation prize was awarded to Mr. Foye. In the evening a dinner dance was held at the club.

While the golf tournament was in progress, Mrs. Carter entertained the women members of the party with a luncheon at her home, Shamrock Farm, in Greenwich, Connecticut.

Informal conferences occupied the time on Wednesday, and the meeting closed with a general feeling that the occasion had proved helpful, as usual, in undertaking the work of the coming busy season, and in solving the many problems with which the organization always is confronted.